

Message Text

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PAGE 01 NAIROB 08121 281914Z

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SUBJECT: IMPACT OF PETROLEUM SHORTAGE IN KENYA

1. SUMMARY. KENYA HAS BEGUN THIS MONTH TO FEEL ENERGY SUPPLY PINCH BROUGHT ON BY REDUCTION OF ARAB OIL PRODUCTION. MID-NOVEMBER SAW 9 PERCENT RISE IN MOTOR GASOLINE PRICES AND CORRESPONDING INCREASES IN OTHER PRODUCT PRICES, AND ACCORDING OIL INDUSTRY SOURCES OTHER MEASURES LIE AHEAD. POSSIBILITIES INCLUDE WEEKEND GAS STATION CLOSURES, SUNDAY DRIVING BAN AND COORDINATED PUBLICITY CAMPAIGN TO REDUCE CONSUMPTION PETROLEUM PRODUCTS. SUPPLY OF LUBRICATING OILS COULD BECOME ESPECIALLY TIGHT. OIL COMPANIES ANTICIPATE DECREASES RANGING FROM 15 TO MORE THAN 30 PERCENT IN RECEIPTS OF CRUDE OIL AND BASE STOCKS AT MOMBASA OVER NEXT MONTH OR TWO COMPARED WITH PRE-OCTOBER PROJECTIONS. END SUMMARY.

2. KENYA ENTERED NOVEMBER WITH ABOUT SIX WEEKS' SUPPLY OF PETROLEUM PRODUCTS ON HAND, INCLUDING THREE WEEKS' SUPPLY OF CRUDE OIL AT MOMBASA. BASE STOCKS FOR LUBRICANTS AND SOLVENTS WERE SOMEWHAT LESS. SOURCES IN MAJOR OIL IMPORTING AND DISTRIBUTING FIRMS SUCH AS ESSO, CALTEX, AND MOBIL ARE CONVINCED THAT SUSTANTIAL SHORTAGES WILL

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PAGE 02 NAIROB 08121 281914Z

DEVELOP IF ARAB STATES CONTINUE TO TIGHTEN THEIR OIL

PRODUCTION LIMITATIONS. ALREADY, AIRLINES HAVE THEIR AVIATION FUEL PURCHASES LIMITED TO CONSUMPTION OF CORRESPONDING 1973 QUARTER, AND BUNKER FUEL AT MOMBASA IS PROVIDED ONLY ON CASE-BY-CASE APPROVAL OF SUPPLYING COMPANY HEADQUARTERS RATHER THAN ON "CAPTAIN'S REQUEST" AS WAS POLICY PREVIOUSLY.

3. ON NOVEMBER 2, OIL COMPANIES RETAILING IN KENYA PRESENTED TO MINFINANCE REQUEST FOR URGENT APPROVAL OF PRODUCT PRICE INCREASES FOR MOTOR GASOLINE, KEROSENE, GAS OIL, HEAVY DIESEL FUEL AND FUEL OIL. IMMEDIATE BASIS FOR REQUEST BY COMPANIES WAS NEED TO COVER OCTOBER 16 CRUDE OIL PRICE INCREASES BY PRODUCING COUNTRIES WHICH TOGETHER WITH ADDITIONAL FREIGHT CHARGES HAD RAISED BY ABOUT ONE-THIRD THE AVERAGE COST OF LANDED CRUDE AT MOMBASA. COMPANIES AT LEAST PRIVATELY, WERE TAKING LINE THAT IF THEIR INTERNAL PROFIT MARGINS WERE SQUEEZED FURTHER BY GOK, THEIR PRINCIPALS WOULD CUT TO THE BONE ALLOCATIONS OF CRUDE OIL TO MOMBASA.

4. GOK ACCEDED RATHER QUICKLY TO COMPANIES' CERTIFIED REQUEST, AND ON NOVEMBER 17 ANNOUNCED IMMEDIATE RETAIL PRICE INCREASES INCLUDING 9 PERCENT GASOLINE INCREASES AND VARIOUS RISES IN OTHER PRODUCTS. INCREASES WERE LESS THAN COMPANIES ASKED, BUT NOT BY MUCH. BY THEN, HOWEVER, FACED BY PROSPECT OF ESCALATING CUTS IN SUPPLIES AND FURTHER PRODUCER PRICES GOUGES, COMPANY REPS WERE CONVINCED THAT FURTHER PRICE RISES AS WELL AS REDUCED CONSUMPTION WOULD BECOME NECESSARY. INDUSTRY REPS HAVE SUBSEQUENTLY BEEN DISCUSSING GENERAL SITUATION WITH GOK, AND AT LATTER'S REQUEST SUGGESTING VARIOUS MEASURES FOR DEALING WITH SITUATION. WE UNDERSTAND THAT AMONG THESE ARE WEEKEND GAS STATION CLOSINGS, BAN ON NON-ESSENTIAL SUNDAY DRIVING (WITH APPROPRIATE EXCEPTIONS FOR TOURIST INDUSTRY), PUBLICITY CAMPAIGN TO AVOID ENERGY WASTAGE, ETC. HOWEVER, GOVERNMENT HAS GIVEN NO HINT PUBLICLY ON WHAT IT MIGHT DECIDE.

5. SUPPLY PINCH MAY COME FIRST IN LUBRICATING OILS AND SOLVENTS. COMPANY REQUESTS FOR APPROVAL OF PRICE INCREASES IN THIS FIELD ARE APPARENTLY FACING LENGTHY LIMITED OFFICIAL USE

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PAGE 03 NAIROB 08121 281914Z

BUREAUCRATIC DELAYS IN PRICE CONTROL SECTION OF FINANCE MINISTRY. AS TO FORECASTED NEAR FUTURE CRUDE OIL RECEIPTS AT MOMBASA, INDIVIDUAL OIL COMPANIES ARE UNDERSTOOD TO BE ANTICIPATING DECREASES RANGING FROM 15 TO 30 PERCENT IN DECEMBER - JANUARY PERIOD COMPARED TO PROJECTIONS OF EARLY AUTUMN.

6. COMMENT: OVERALL, PRESENT AND PROJECTED NEAR FUTURE

OIL SUPPLY AND PRICE SITUATION FOR KENYA IS NO WORSE AND
PROBABLY BETTER THAN IN MANY OTHER PLACES. BUT IT
SEEMS CLEAR THAT ADDITIONAL MEASURES TO CURB CONSUMPTION
AND TO INCREASE PRICES FURTHER WILL BE REQUIRED IN WEEKS
AHEAD. AT PRESENT, THE APPARENT HOPE OF GOK, AS OF SOME
OTHER AFRICAN STATES, IS THAT SOMEHOW ARAB
PRODUCING COUNTRIES WILL REWARD THEIR BREAKING OF TIES WITH

ISRAEL BY SEEING THAT THEIR OIL SUPPLIES ARE UNAFFECTED
BY THE PRODUCTION CUTBACKS. WE SEE NO SIGN THIS HOPE
WILL BE REALIZED.
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